

110TH CONGRESS
1ST SESSION

H. R. 3557

To amend the Internal Revenue Code of 1986 to provide for the establishment of, and the deduction of contributions to, homeownership plans.

IN THE HOUSE OF REPRESENTATIVES

SEPTEMBER 17, 2007

Mr. WEXLER introduced the following bill; which was referred to the Committee on Ways and Means

A BILL

To amend the Internal Revenue Code of 1986 to provide for the establishment of, and the deduction of contributions to, homeownership plans.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. SHORT TITLE.**

4 This Act may be cited as the “Restore American
5 Dream Act of 2007”.

6 **SEC. 2. HOMEOWNERSHIP PLANS.**

7 (a) IN GENERAL.—Part VII of subchapter B of chap-
8 ter I of the Internal Revenue Code of 1986 (relating to
9 additional itemized deductions for individuals) is amended

1 by redesignating section 224 as section 225, and by insert-
2 ing after section 223 the following new section:

3 **“SEC. 224. HOMEOWNERSHIP PLANS.**

4 “(a) ALLOWANCE OF DEDUCTION.—In the case of an
5 individual, there shall be allowed as a deduction the
6 amounts paid in cash for the taxable year by or on behalf
7 of such individual to a homeownership plan established for
8 the benefit of the individual.

9 “(b) LIMITATIONS.—

10 “(1) MAXIMUM DEDUCTION.—The deduction al-
11 lowed by subsection (a) for the taxable year shall not
12 exceed the limitation of section 415(c) (relating to
13 limitation for defined contribution plans).

14 “(2) DEDUCTION NOT TO EXCEED COMPENSA-
15 TION.—The deduction allowed under subsection (a)
16 for the taxable year shall not exceed an amount
17 equal to the compensation includible in the individ-
18 ual’s gross income for such taxable year.

19 “(3) PERIOD FOR DEDUCTIONS.—No deduction
20 shall be allowed under subsection (a) for any con-
21 tribution made to a homeownership plan after the
22 contribution period.

23 “(4) NUMBER OF PLANS.—If an individual is
24 the beneficiary of more than 1 homeownership plan
25 during any taxable year, no deduction shall be al-

1 lowed under subsection (a) for any amount paid for
 2 such taxable year to any homeownership plan estab-
 3 lished for the benefit of such individual.

4 “(5) MARRIED INDIVIDUALS.—For purposes of
 5 this section—

6 “(A) TREATMENT.—Married individuals
 7 filing either a joint return or separate returns
 8 shall be considered to be 1 individual.

9 “(B) ESTABLISHMENT OF PLAN.—A home-
 10 ownership plan established for the benefit of
 11 any married individual shall be deemed to be
 12 established for the exclusive benefit of the indi-
 13 vidual and such individual’s spouse.

14 “(C) MERGER OF PLANS.—In the event
 15 that 2 individuals for each of whose benefit a
 16 homeownership plan has been established
 17 should marry, the 2 plans shall be deemed to be
 18 merged into 1 plan. Thereafter, subject to para-
 19 graph (1), each individual may make contribu-
 20 tions during the remainder of the contribution
 21 period applicable to that individual.

22 “(c) DEFINITIONS AND SPECIAL RULES.—For pur-
 23 poses of this section—

24 “(1) HOMEOWNERSHIP PLAN.—The term
 25 ‘homeownership plan’ means a trust created or orga-

1 nized in the United States exclusively for the pur-
2 pose of paying qualified principal residence acquisi-
3 tion expenses of the account holder, but only if such
4 account holder meets the ownership limitations spec-
5 ified in paragraph (3) and only if the written gov-
6 erning instrument creating the trust meets the fol-
7 lowing requirements:

8 “(A) No contribution will be accepted un-
9 less it is in cash.

10 “(B) The trustee is a bank (as defined in
11 section 408(n)) or another person who dem-
12 onstrates to the satisfaction of the Secretary
13 that the manner in which the person will ad-
14 minister the trust will be consistent with the re-
15 quirements of this section.

16 “(C) No part of the trust assets will be in-
17 vested in life insurance contracts.

18 “(D) The assets of the trust shall be in-
19 vested in accordance with the direction of the
20 account holder.

21 “(E) The assets of the trust will not be
22 commingled with other property except in a
23 common trust fund or common investment
24 fund.

1 “(F) The interest of an individual in the
2 balance in his account is nonforfeitable.

3 “(G) The entire interest of an individual
4 for whose benefit the trust is maintained will be
5 distributed to such individual at the end of the
6 contribution period.

7 “(2) QUALIFIED PRINCIPAL RESIDENCE ACQUI-
8 SITION EXPENSES.—The term ‘qualified principal
9 residence acquisition expense’ means an expense in-
10 curred by the taxpayer with respect to acquiring a
11 principal residence, including expenses for a down-
12 payment, interest, points, homeowners and mortgage
13 insurance, other closing costs, and other related
14 items.

15 “(3) OWNERSHIP LIMITATIONS.—The account
16 holder shall be an individual who, after attaining the
17 age of 19 (or in the case of a student has not at-
18 tained the age of 24), has never had a present own-
19 ership interest in a principal residence.

20 “(4) PRINCIPAL RESIDENCE.—The term ‘prin-
21 cipal residence’ has the same meaning as when used
22 in section 121.

23 “(5) CONTRIBUTION PERIOD.—

24 “(A) IN GENERAL.—The term ‘contribu-
25 tion period’ means the 9-year period beginning

1 on the date on which the homeownership plan
2 is established.

3 “(B) AFTER DEATH OR DIVORCE.—In the
4 case of plan treated as a homeownership plan
5 under paragraph (4) or (5) of subsection (d),
6 the contribution period shall be the remaining
7 portion of the 9-year period described in sub-
8 paragraph (A), determined by taking into ac-
9 count only the employment and enrollment of
10 the account holder. In no event may the con-
11 tribution period exceed 14 years.

12 “(6) TIME WHEN CONTRIBUTIONS DEEMED
13 MADE.—A taxpayer shall be deemed to have made a
14 contribution to a homeownership plan on the last
15 day of the preceding taxable year if the contribution
16 is made on account of such taxable year and is made
17 not later than the time prescribed by law for filing
18 the return for such taxable year (not including ex-
19 tensions thereof).

20 “(7) FINANCIAL HARDSHIP.—The term ‘finan-
21 cial hardship’ means an individual can withdraw
22 from the homeownership plan if—

23 “(A) the withdrawal is due to an imme-
24 diate and heavy financial need,

1 “(B) the withdrawal is necessary to satisfy
2 the heavy financial need, and

3 “(C) the withdrawal does not exceed the
4 amount that is needed to relieve the heavy fi-
5 nancial need.

6 “(d) TAX TREATMENT OF DISTRIBUTIONS.—

7 “(1) AMOUNTS USED FOR QUALIFIED PRIN-
8 CIPAL RESIDENCE ACQUISITION EXPENSES.—Any
9 amount paid or distributed out of a homeownership
10 plan which is used exclusively to pay qualified prin-
11 cipal residence acquisition expenses of the account
12 holder shall not be includible in gross income.

13 “(2) INCLUSION OF AMOUNTS NOT USED FOR
14 QUALIFIED PRINCIPAL RESIDENCE ACQUISITION EX-
15 PENSES.—Any amount paid or distributed out of a
16 homeownership plan which is not used exclusively to
17 pay the qualified principal residence acquisition ex-
18 penses of the account holder shall be included in the
19 gross income of such holder.

20 “(3) EXCESS CONTRIBUTIONS RETURNED BE-
21 FORE DUE DATE OF RETURN.—Paragraph (2) shall
22 not apply to the distribution of any contribution
23 made during a taxable year to a homeownership plan
24 to the extent that such contribution exceeds the

1 amount allowable as a deduction under subsection
2 (a) if—

3 “(A) such distribution is received on or be-
4 fore the day prescribed by law (including exten-
5 sions of time) for filing such individual’s return
6 for such taxable year,

7 “(B) such distribution is accompanied by
8 the amount of net income attributable to such
9 excess contribution.

10 Any net income described in subparagraph (B) shall
11 be included in the gross income of the individual for
12 the taxable year in which such excess contribution
13 was made.

14 “(4) TRANSFER OF PLAN INCIDENT TO DI-
15 VORCE.—The transfer to an individual’s spouse or
16 former spouse under a divorce or separation instru-
17 ment described in subparagraph (A) of section
18 71(b)(2) shall not be considered a taxable transfer
19 made by such individual notwithstanding any other
20 provision of this subtitle, and such interest at the
21 time of the transfer shall be treated as a home-
22 ownership plan of such spouse with respect to which
23 such spouse is the account holder. For purposes of
24 subsection (c)(1)(G), the spouse shall take into ac-

1 count the period such plan was held by the indi-
2 vidual transferring the interest.

3 “(5) TRANSFER OF PLAN INCIDENT TO
4 DEATH.—The transfer of a decedent’s interest in a
5 homeownership plan to such decedent’s spouse shall
6 not be considered a taxable transfer made by such
7 decedent notwithstanding any other provision of this
8 subtitle, and such interest at the time of the transfer
9 shall be treated as a homeownership plan of the sur-
10 viving spouse with respect to which such spouse is
11 the account holder. For purposes of subsection
12 (c)(1)(G), the surviving spouse shall take into ac-
13 count the period such plan was held by the decedent
14 transferring the interest.

15 “(e) TAX TREATMENT OF PLANS.—

16 “(1) EXEMPTION FROM TAX.—A homeowner-
17 ship plan shall be exempt from taxation under this
18 subtitle unless such plan has ceased to be a home-
19 ownership plan. Notwithstanding the preceding sen-
20 tence, any such plan shall be subject to the taxes im-
21 posed by section 511 (relating to imposition of tax
22 on unrelated business income of charitable, etc. or-
23 ganizations).

1 “(2) LOSS OF EXEMPTION OF PLAN WHERE IN-
2 DIVIDUAL ENGAGES IN PROHIBITED TRANS-
3 ACTIONS.—

4 “(A) IN GENERAL.—If, during any taxable
5 year of the individual for whose benefit the
6 homeownership plan is established, the indi-
7 vidual engages in any transaction prohibited by
8 section 4975 with respect to the plan, the plan
9 shall cease to be a homeownership plan as of
10 the first day of such taxable year.

11 “(B) FINANCIAL HARDSHIP EXCEPTION.—
12 Subparagraph (A) shall not apply if such indi-
13 vidual experiences financial hardship and en-
14 gaged in such transaction—

15 “(i) to pay medical expenses; or

16 “(ii) to cover funeral expenses for a
17 family member.

18 For purposes of this subparagraph, the indi-
19 vidual for whose benefit any plan was estab-
20 lished is treated as the creator of the plan.

21 “(C) PLAN TREATED AS DISTRIBUTING
22 ALL ITS ASSETS.—In any case in which any
23 plan ceases to be a homeownership plan by rea-
24 son of subparagraph (A), on the first day of
25 any taxable year, subsection (d)(1) shall be ap-

1 plied as if there were a distribution on such
2 first day in an amount equal to the fair market
3 value (on such first day) of all assets in the
4 plan (on such first day).

5 “(3) EFFECT OF PLEDGING PLAN AS SECUR-
6 RITY.—If, during any taxable year, an individual for
7 whose benefit a homeownership plan is established
8 uses the plan or any portion thereof as security for
9 a loan, the portion so used shall be treated as dis-
10 tributed to such individual.

11 “(4) EFFECT OF ACQUISITION OF PRINCIPAL
12 RESIDENCE.—

13 “(A) IN GENERAL.—In the event that the
14 individual for whose benefit a homeownership
15 plan is established acquires a principal resi-
16 dence in any taxable year, such plan shall cease
17 to be a homeownership plan and all assets in
18 the plan shall be treated as distributed to such
19 individual on the first day of such taxable year.

20 “(B) SPECIAL RULES UPON MARRIAGE.—
21 For purposes of subparagraph (A), an indi-
22 vidual for whose benefit a homeownership plan
23 is established shall not be treated as having ac-
24 quired a principal residence if, after the estab-
25 lishment of such plan, such individual—

1 “(i) marries an individual who owns a
2 principal residence, but

3 “(ii) does not obtain an ownership in-
4 terest in such residence.

5 “(f) ADDITIONAL TAX ON CERTAIN AMOUNTS IN-
6 CLUDED IN GROSS INCOME.—

7 “(1) DISTRIBUTION NOT USED FOR PURCHASE
8 OF PRINCIPAL RESIDENCE.—The tax imposed by
9 this chapter on the account holder for any taxable
10 year in which there is a payment or distribution
11 from a homeownership plan of such holder which is
12 includible in gross income under subsection (d)(2)
13 shall be increased by 10 percent of the amount
14 which is so includible.

15 “(2) DISABILITY OR DEATH CASES.—Paragraph
16 (1) shall not apply if the distribution is made after
17 the individual for whose benefit the homeownership
18 plan is established becomes disabled within the
19 meaning of section 72(m)(7) or dies.

20 “(g) CUSTODIAL ACCOUNTS.—For purposes of this
21 section, a custodial account shall be treated as a trust if
22 the assets of such account are held by a bank (as defined
23 in section 408(n)) or another person who demonstrates,
24 to the satisfaction of the Secretary, that the manner in
25 which he will administer the account will be consistent

1 with the requirements of this section, and if the custodial
2 account would, except for the fact that it is not a trust,
3 constitute a homeownership plan described in subsection
4 (c). For purposes of this title, in the case of a custodial
5 account treated as a trust by reason of the preceding sen-
6 tence, the custodian of such account shall be treated as
7 the trustee thereof.

8 “(h) REPORTS.—The trustee of a homeownership
9 plan shall make such reports regarding such plan to the
10 Secretary and to the individual for whose benefit the plan
11 is maintained with respect to contributions, distributions,
12 and such other matters as the Secretary may require
13 under regulations. The reports required by this subsection
14 shall be filed at such time and in such manner and fur-
15 nished to such individuals at such time and in such man-
16 ner as may be required by those regulations.

17 “(i) PLANS ESTABLISHED BY EMPLOYERS.—A trust
18 created or organized in the United States by an employer
19 for the exclusive benefit of the employees of the employer
20 shall be treated as a homeownership plan, but only if the
21 written governing instrument creating the plan meets the
22 following requirements:

23 “(1) GENERAL REQUIREMENTS FOR HOME-
24 OWNERSHIP PLANS.—The plan satisfies the require-

1 ments of subparagraphs (A) through (G) of sub-
2 section (c)(1).

3 “(2) SEPARATE ACCOUNTING.—There is a sepa-
4 rate accounting for the interest of each employee.
5 The assets of the trust may be held in a common
6 fund for the account of all employees who have an
7 interest in the trust.

8 “(3) ADDITIONAL REQUIREMENTS.—The plan
9 satisfies requirements, established in regulations
10 issued by the Secretary, similar to the requirements
11 set forth in paragraphs (2) through (8) of section
12 408(k) (other than paragraph (2)(B)).”

13 (b) ALLOWANCE OF DEDUCTION IN ARRIVING AT AD-
14 JUSTED GROSS INCOME.—Paragraph (7) of section 62(a)
15 of such Code (relating to retirement savings) is amend-
16 ed—

17 (1) by inserting “OR HOUSING” after “RETIRE-
18 MENT” in the heading of such paragraph; and

19 (2) by inserting before the period at the end the
20 following: “and the deduction allowed by section 224
21 (relating to deduction of certain payments to home-
22 ownership plans)”.

23 (c) TAX ON EXCESS CONTRIBUTIONS.—Section 4973
24 of such Code (relating to tax on excess contributions to
25 certain tax-favored accounts and annuities) is amended—

1 (1) by inserting after paragraph (5) the fol-
2 lowing:

3 “(6) a homeownership plan (within the meaning
4 of section 224(c)),”; and

5 (2) by adding at the end the following new sub-
6 section:

7 “(h) EXCESS CONTRIBUTIONS TO HOMEOWNERSHIP
8 PLANS.—For purposes of this section, in the case of a
9 homeownership plan (within the meaning of section
10 224(c)(1)), the term ‘excess contributions’ means the
11 amount by which the amount contributed for the taxable
12 year to the plan exceeds the amount allowable as a deduc-
13 tion under section 224 for such taxable year.”.

14 (d) TAX ON PROHIBITED TRANSACTIONS.—Section
15 4975 of such Code (relating to tax on prohibited trans-
16 actions) is amended—

17 (1) by adding at the end of subsection (c) the
18 following new paragraph:

19 “(7) SPECIAL RULE FOR HOMEOWNERSHIP
20 PLANS.—An individual for whose benefit a home-
21 ownership plan is established shall be exempt from
22 the tax imposed by this section with respect to any
23 transaction concerning such plan (which would oth-
24 erwise be taxable under this section) if, with respect
25 to such transaction, the plan ceases to be a home-

1 ownership plan by reason of the application of sec-
 2 tion 222(e)(2)(A) or if section 222(e)(3) applies to
 3 such plan.”; and

4 (2) in subsection (e)(1) by striking “or” at the
 5 end of subparagraph (F), by redesignating subpara-
 6 graph (G) as subparagraph (H) and inserting after
 7 subparagraph (F) the following new subparagraph:

8 “(G) a homeownership plan described in
 9 section 224(c), or”.

10 (e) FAILURE TO PROVIDE REPORTS ON HOME-
 11 OWNERSHIP PLANS.—Paragraph (2) of section 6693(a) of
 12 such Code (relating to failure to provide reports on certain
 13 tax-favored accounts or annuities; penalties relating to
 14 designated nondeductible contributions) is amended by
 15 striking “and” at the end of subparagraph (D), by strik-
 16 ing the period at the end of subparagraph (E) and insert-
 17 ing “, and”, and by inserting after subparagraph (E) to
 18 following new subparagraph:

19 “(F) section 224(i) (relating to home-
 20 ownership plans).”.

21 (f) CLERICAL AMENDMENTS.—The table of sections
 22 for part VII of subchapter B of chapter 1 of such Code
 23 is amended by striking the item relating to section 224
 24 and inserting the following:

“Sec. 224. Homeownership plans.
 “Sec. 225. Cross reference.”.

1 (g) EFFECTIVE DATE.—The amendments made by
2 this section shall apply to taxable years beginning after
3 December 31, 2007.

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